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# Direct Loans

William D. Ford Federal Direct Loan Program

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VOLUME II, NUMBER 3

NEWSLETTER

MAY/JUNE 1996

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## DIRECT LOAN PROGRAM WILL NOT BE CAPPED

We are pleased to announce that Congress has completed action on the FY 1996 appropriations for the Department of Education. The new law allows the current law governing the William D. Ford Federal Direct Loan Program to remain intact--there will be no cap on the program. This means that all schools have the option to participate in Direct Loans.

President Clinton signed the legislation on April 26, 1996, ending one of the most intense and sometime contentious debates ever affecting any Title IV student financial assistance program. The final deciding factor, we believe, was the overwhelming support of the higher education community to continue to allow schools the choice of participating in either Direct Loans or FFEL or both. Interestingly enough, many non-Direct Loans schools supported the President's position to maintain choice. We think the outcome of the legislative debate is beneficial for all students and all institutions.

The new law also made administrative changes, including one that eliminated the provision that gives the Department the authority to make Payments for Origination Services (POS) to schools. This means we are no longer authorized to pay Level 1 and Level 2 schools \$10 and \$7 per borrower, as we had in the past.

The law does not affect the POS payments that are currently underway, based on loans reconciled by April 26, 1996. These payments were made during the week of May 6. We may also be able to make POS payments for those loans made before the law became effective. We are considering procedures to make those payments and will let you know the process as soon as the final decisions are made. Of course, any future payments will be paid after the "eligible" loans are reconciled.

Some schools were concerned, during this past year, about the fate of direct lending. This concern escalated with time and a few schools decided to postpone their participation until the 1997-98 academic year. Several schools have elected to begin participating in Direct Loans by making this program available to undergraduate students enrolling for the first time in the spring term. We expect that more schools will opt to participate in Direct Loans, now that this Program's fate has been decided, and we stand ready to provide the support needed to make direct lending available to all students.

We will continue to keep you posted on program developments and look forward to working with you as we continue our efforts to improve the federal student loan system and make direct lending more successful than ever.

## DIRECT LOANS IS SELECTED AS A SEMIFINALIST FOR THE 1996 INNOVATIONS IN AMERICAN GOVERNMENT AWARDS PROGRAM

The Direct Loan Program was selected as a semifinalist for the 1996 *Innovations in American Government Awards Program* sponsored by the Ford Foundation and the John F. Kennedy School of Government at Harvard University. Only 100 of the 1,560 applicants participating in the initial competition were selected as semifinalists, and we are proud that Direct Loans is one.

Four criteria are used to evaluate each Innovations Award applicant: an innovative approach to a problem of significant concern to the U.S. public, the program's effectiveness in addressing the problem, the value of the program to its clients, and the degree to which the program can be replicated.

The Direct Loan Program was selected because it is flexible, more accountable, and less complicated than other student loan programs. Our goal, in using this approach, is to improve the Federal student loan delivery system and subsequently increase access to postsecondary education. We are well on the way toward achieving that goal. Begun in 1994 at 104 institutions, direct lending is now offered at 1,350 schools and serves an estimated 2 million borrowers.

### DIRECT LOANS' JANE HOLMAN RECEIVES THE 1996 FEDERAL 100 AWARD

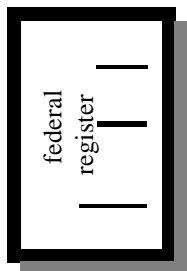
This award recognizes 100 individuals (both in the government and out) who contributed the most to improve systems in the past year. Jane's award was based on her work on the Direct Loan Program. Other winners include: Honorable William Cohen, United States Senator from Maine; Peggy Richardson, Commissioner of IRS; John Koskigan from OMB; and Tom Greene of CDSI, one of Direct Loans' contractors. The award is given by Federal Computer News.

Our most significant achievement, however, is customer satisfaction. The Department has received rave reviews from independent auditors, and borrowers participating schools for the user-friendly design and management of the program. The innovative approach of direct lending has also influenced the management of other Federal student loan programs, resulting in substantial improvement in their program operations and customer service functions to compete with direct lending.

Four proven features make direct lending exceptional and worthy of an *Innovation in American Government Award*:

- ✓ ***Simplicity for borrowers and schools.*** The streamlined delivery system eliminates confusion and complexity, resulting in better and faster service to borrowers. Under direct lending, loan funds available to students by the first day of classes have doubled and in some cases tripled.
- ✓ ***Accountability.*** Data used to monitor, improve, and enhance program oversight is more reliable and readily available than such data for other federal student loan programs.
- ✓ ***Customer Service.*** Direct Loans is customer-driven as reflected in our quick response to questions, the speed at which problems are addressed, training, technical assistance, and the publications available to borrowers and schools.
- ✓ ***Flexibility.*** Borrowers are no longer confused by the complexity of multiple forms, guaranty agencies, banks, and secondary markets; and once their loans go into repayment, borrowers have more repayment choices.

All finalists will receive a \$20,000 Ford Foundation grant to be used for replication and dissemination. Ten to fifteen \$100,000 winners will be selected from among 25 finalists. Federal programs cannot receive funds that accompany such an award. We are pleased, however, that the Direct Loan Program is one of the semifinalists and are optimistic that it will be among the winning programs. The Ford Foundation will announce the winners in early December 1996.



## POLICY UPDATE

*(The following summaries represent Final Rules)*

On December 1, 1995, the Secretary amended regulations governing all Federal student financial assistance programs under Title IV of the Higher Education Act. Following is a brief summary of the Final Rules that will affect the Direct Loan Program. These changes will become effective July 1, 1996.

### Default Prevention Measures

***Provide the Secretary authority to take L, S, and T action*** against a school's participation in Title IV programs if it has a Direct Loan Program cohort rate or weighted average cohort rate greater than 40 percent.

***Provide the Secretary authority to take L, S, and T action*** against a school's participation in FFEL Program only if it has a Direct Loan Program cohort rate or weighted average cohort rate equal to or greater than 25 percent for three consecutive fiscal years

***Streamline the L, S, and T process*** and limit the grounds on which a hearing officer may decide when an L, S, and T action is unwarranted.

***Make a school ineligible to participate in the Direct Loan Program*** if it has a Direct Loan Program cohort rate or weighted average cohort rate equal to or greater than 25 percent for three consecutive fiscal years.

***Revise the exceptional mitigating circumstances*** for FFEL Program and Direct Loan Program schools to appeal a loss of eligibility due to high cohort default rates.

***Simplify mitigating circumstances appeal process*** so that if a school wishes to appeal, it must submit its total appeal criteria within 30 days. The appeal criteria must be verified by an independent auditor.

### Income-Contingent Repayment Plan

***Major provisions:*** a) establish a new formula for the Income-Contingent Repayment Plan; b) use new procedure to calculate monthly payments for married borrowers; c) require alternative income documentation for first and most second-year borrowers; d) eliminate \$15 threshold payment, and establishes a \$5 monthly payment for borrowers with payments between \$0 and \$5.

### Direct Loan Program Changes

***Permit a school to request a change in its current origination level*** to a different level (with a lesser or greater level of responsibility) beginning with the 1996-97 academic year.

***Clarify that the date of origination*** is the date a school creates the electronic loan origination record.

***Require the submission of promissory notes, disbursement and origination records*** no later than 30 days following the date of disbursement.

### Federal Regulatory Review

***Major changes to SFA programs impacting the Direct Loan Program:***

***Expansion of Parent Borrower.*** Allows a stepparent to borrow under the Federal Direct PLUS and Federal PLUS programs if the stepparent's income and assets are taken into account when calculating the student's expected family contribution.

***Flexibility in Notification of Funds Credited to a Student's Account.*** An institution may notify a student or parent borrower that Direct Loan or FFEL Program funds have been credited to the student's account electronically, i.e. via e-mail, or a telecommunications device such as a telephone message system. The school must request the student or parent to confirm the receipt of notice and maintain a record of the confirmation. Telephonic and in-person conversations are not adequate and are not verifiable methods of providing notice.

***Schools may request a copy of any of the Federal Register notices by calling the Federal Student Aid Center at (800) 433-3243.***

**FIRST CLASS MAIL**

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## ANNOUNCEMENTS

**Video Conference to Follow NASFAA Conference.** A video conference to discuss consolidation, legislation, reconciliation, loan origination, and servicing center issues will be held after the NASFAA conference in Denver, Colorado on July 17, 1996.

**EDEExpress Training.** Beginning this summer EDEExpress training will be held in the regional training facilities once or twice a month. The training will be available to any school, not just Direct Loan schools. The sessions will include an overview of Electronic Data Exchange and hands-on EDEExpress training. Contact your training specialist for schedules.

**Title IV Update Training.** These sessions will be held at the Regional Training Centers in Dallas, Texas, May 7-10; Atlanta, Georgia, May 8-9; New York, New York, Washington, DC; Atlanta, Georgia; San Francisco, California and Kansas City, Missouri, May 14-15; and Chicago, Illinois, May 21-24.

**Direct Loan Training for Year 3 Schools.** The Department will conduct training for Year 3 schools in San Francisco, California, May 20-22 and New York, New York, May 30-31. Both sessions will include program, regulatory, and technical training. The three-day session in San Francisco will also include EDEExpress training. Contact your account manager for registration information.

**Consolidation Seminars.** The Department will conduct one-day seminars to present an overview for Direct Consolidation Loans, explain regulatory changes and discuss repayment issues. The seminars will be conducted at the regional training centers in New York, New York on May 21; Atlanta, Georgia on May 23; Chicago, Illinois on June 4; Kansas City, Missouri on June 6; Dallas, Texas on June 11; and Denver, Colorado on June 13. Contact your account manager to register.

**Direct Loans on the World Wide Web.** Users of the Internet now have access to fact sheets, Direct Consolidation Loan information, the Direct Loans Newsletter and other Direct Loan publications via the World Wide Web. The Uniform Resource Locator (URL) address for the Direct Loan Home Page is: <http://www.ed.gov/offices/OPE/DirectLoan/>

### *ABOUT OUR NEWSLETTER*

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